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ABSTRACT

A review of the literature was conducted to understand whether or not and how enterprise zones and other economic development strategies apply to Indian country. The review: (1) summarizes the effects of past and present federal policies on Indians and their economic development efforts; (2) examines the literature on enterprise zones, as envisioned at the federal level and as implemented on the state level; (3) highlights some of the literature on current Indian economic development efforts; and (4) looks at the relevance of enterprise zones and other federally enacted incentives to reservation development strategies. Through some notable successes with reservation businesses, it has been shown that economic development is possible. Some essential pre-conditions to success include tribal commitment and leadership, sound business practices, availability of investment capital, and the resources to support job training. There also have been economic failures on the reservations. Externally initiated projects are often culturally irrelevant to Indian people. Other difficulties include the geographic isolation of the reservations, as well as the lack of education and job skills. The literature points to the need for the Indians themselves to initiate and be involved in efforts to achieve economic self-sufficiency. Enterprise zones have not been sufficiently implemented by the federal government, and the ones implemented by the states have met with mixed results. Includes 17 references. (ALL)

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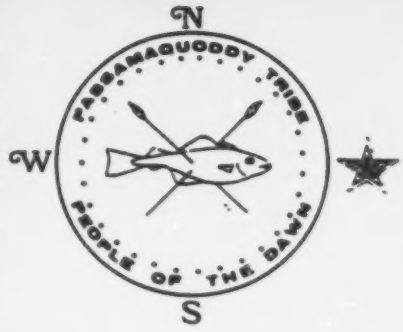

ENTERPRISE ZONES

AND

NATIVE AMERICAN ECONOMIC DEVELOPMENT

- A Summary Review of the Literature -

ED329383

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August, 1990

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This paper was prepared as a deliverable under an Administration for Native American (ANA) Grant (#90NA0803/01) to the Passamaquoddy Tribe (ME) to study the applicability of the enterprise zone concept as an economic development tool in Indian Country.

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TABLE OF CONTENTS

		Page
I.	INTRODUCTION	1
	This Review	1
	Context	1
	Traditional Assumptions	1
	Indian Experience	2
II.	FEDERAL INDIAN POLICIES: HISTORY AND EFFECTS	2
	This Section	2
	Historical Attempts to Control the Indians	2
	FDR's Administration	3
	Federal Policy Reversal	3
	LBJ's Policies; Self-Determination	4
	Federal Programs for Indians	4
III.	INDIAN ECONOMIC DEVELOPMENT	6
	This Section	6
	Inter-related Factors	6
	Characteristics of Reservation Businesses	7
	Tribal Business Failures	7
	Overcoming Barriers to Economic Development	8
	Two Creative Strategies	9
	Six Case Studies of Success	9
	Federal Legislation	11
IV.	ENTERPRISE ZONES	11
	This Section	11
	Definition; Goals	12
	Federal Enterprise Zones	12
	State and Inner City Programs	13
	Site Selection	13
	Characteristics of Zone Businesses	14
	Successful Enterprise Zones	14
	Negative Views of Enterprise Zones	15
	Alternative Incentives	16
	Psychological Impacts of Zones	16
	Tribal Enterprise Zones	16
	Proposed Incentives for Reservation Zones	17
	Other Incentives	17
V.	SUMMARY AND CONCLUSIONS	18
	History	18
	Indian Economic Development	18
	Enterprise Zones	18
	Conclusions	18
BIBLIOGRAPHY		20

I. INTRODUCTION

This Review

To understand whether and how enterprise zones and other economic development strategies apply to Indian country, it is helpful to review the literature about these areas. This review:

* Summarizes the effects of past and present federal policies on Indians and their economic development efforts;

* Examines the literature on enterprise zones, as they are envisioned at the federal level and as they have been implemented at the state level;

* Highlights some of the literature on current Indian economic development efforts; and

* Looks at the relevance of enterprise zones and other federally enacted incentives to reservation development strategies.

Context

Many leaders in Indian economic development believe that economic self-sufficiency is absolutely essential to the social and cultural stability of Indian tribes. It is in this context that enterprise zones and economic development, generally, have been tried and encouraged in Indian country.

Traditional Assumptions

Traditional western economic development policies are based on assumptions that are not innate, but are learned by cultural assimilation. They do not hold true in every cultural context. These assumptions include the following:

* A common belief system is in place, which encompasses the notions of private property, individual identities and pride in being financially self-sufficient.

* An impetus in the form of money, infrastructure development, or some other applied incentive is needed to get people to support and participate in business.

If private businesses are to thrive in the reservation environment, the underlying assumptions under which they operate must closely match those of the people with whom they are working. It is not as simple as offering financial and regulatory incentives to persuade private businesses to locate their operations on reservations. If such businesses are to be successful, the community must accept and welcome them.

Indian Experience

Even though many federal programs have been instituted in the past twenty to thirty years, there has not been a great deal of improvement in the circumstances of many of the people living on the reservations. In some cases, there is a sense that programs, intended to help, have actually undermined valuable parts of the Indian culture and way of life.

An important lesson from Indian history is that there is no panacea that will make everything right for all Indians. There are wide variations between the tribes and between tribal cultures, as well as between individual Indians within each of the tribes. (Nelson et al, 1986.) This fact is borne out by varying degrees of success and lack of success in attempts at traditional economic development among various tribes.

The literature shows the difficult circumstances under which economic development is expected to occur in Indian country. It suggests that economic development, as it has been understood and practiced in the larger society, may be irrelevant to the life-style and goals of the people in Indian country.

The literature reveals some very creative approaches to economic development that are currently being explored in Indian country. Among them are the projects funded by the Seventh Generation Fund and the Lakota Fund. These funds make loans to small indigenous businesses on reservations.

The literature points to the need for the Indians themselves to initiate and be involved in efforts to achieve economic self-sufficiency.

II. FEDERAL INDIAN POLICIES: HISTORY AND EFFECTS

This Section

This section reviews the history and effects of federal policies and programs relating to Indians. This background information is helpful to understanding economic development efforts and strategies in Indian country.

Historical Attempts to Control the Indians

Historically, the Federal Government's policy, up through and including the Allotment Act, was aimed at controlling the Indians and at preventing their cultural autonomy. In 1881, for example, a United States Senator stated that the Indians *cannot fish or hunt. They must either change their mode of life or they must die.* (Cowden, Gross, 1988, p. 21.)

Over the years, the Indians' way of life and their means of

self-support have been stripped away by federal policy designed to move them aside, so that economic progress could be made by the new culture. *Constant reduction of hunting grounds made the tribal economic dependence more acute, and changes from previous cultural patterns more necessary.* (Cowden, Gross, p. 19.)

FDR's Administration

It was not until Franklin D. Roosevelt's administration that federal policy changed course. Although some Indian people had moved into the mainstream culture, *most Indians had continued to resist and hang onto what remained of their tribal culture ... The Roosevelt administration decided that for the first time as a matter of federal Indian policy the tribes themselves should be strengthened, not weakened, and attempts should be made to help the Indians preserve what remained of Indian culture.* (Cowden, Gross, p. 25.)

This policy culminated in the Indian Reorganization Act (IRA) of June 18, 1934, supported by John Collier, Commissioner of the Bureau of Indian Affairs (BIA) under Roosevelt for twelve years. The hope was that the Indian tribes would eventually become economically independent.

However, a number of factors worked against that end, including the stringent requirements of the IRA for tribal self-governance to be modeled on American constitutional government. This model may not be compatible with the cultural structures of tribes. Another problem has been with the built-in dependence on BIA, which has done little to help tribal governments become stronger and more self-sufficient. (Cowden, Gross.)

Collier envisioned a less central role for the BIA, with tribal governments governing themselves and handling their own business affairs. He attempted *to develop reservation resources to the highest potential. He encouraged development of local industries and encouraged a use of Indian arts and crafts in these enterprises ... [His] economic development strategy involved starting with federally-subsidized 'relief work' and moving gradually to subsistence farming, native crafts, and the establishment of reservation industries.* (Cowden, Gross, p. 27.)

Federal Policy Reversal

After Collier's tenure in office, many of his policies were reversed. Congress began talking again about termination. They attempted *to eliminate as many tribes as possible by withdrawing federal recognition, protection, and services ... On May 8, 1950, Dillon Meyer became Commissioner of Indian Affairs, giving the proponents of termination control of the BIA. The goals and policies of the new Commissioner were to get rid of Indians and Indian trust land once and for all by terminating federal recognition and services and relocating Indians into cities off the reservations.* (Cowden, Gross, p. 30.)

One of the major efforts to move the Indians off the reservations was in the form of vocational training and placement programs for jobs off the reservations. Another effort was the passage of legislation making Indian land available to mortgage or lease under certain circumstances.

LBJ's Policies; Self-Determination

These policies continued until 1968, when *President Lyndon Johnson called for an end to talk of termination and for the substitution of a policy of self-help, self-development and self-determination ... The goal was no longer the end of tribes and transition to a presumed superior culture, but merely the opportunity to enjoy a standard of living equal to other Americans, under whatever cultural conditions American Indians chose to live.* (Cowden, Gross, p. 33.)

As part of Johnson's policies, Indian tribes were encouraged to take over from BIA the running of some of the programs set up for their benefit, such as law enforcement and education.

In 1975, the Indian Self-Determination Act authorized and directed the Secretary of Interior and the Secretary of Health, Education and Welfare (responsible for the Indian Health Service) to contract all or part of programs, as requested by Tribes, subject only to certain specified criteria and procedures. However, when tribes have tried to exercise these powers of self-determination, there have been funding cuts in the programs. Experiences with BIA and IHS have shown that when the programs are taken over by the tribes, funds sometimes are cut dramatically, whereas when these programs are given back to BIA or IHS, funding levels are restored. (Cowden, Gross.)

Federal Programs for Indians

There was a great deal of federal emphasis on building up the infrastructure on reservations during the 1960's and 1970's. However, little true private sector development resulted from these efforts. The goal of developing a viable reservation economy is still far from being realized. The following is an overview of the federal programs that have affected the economic development efforts of the Indians: (Cowden, Gross.)

* The ***BIA Division of Economic Development*** was created in 1962, with the following program goals: concentration and development of economic resources; encouragement of business and industrial development; provision of technical assistance to tribes and assistance with land management practices; and development of a home-building and public works construction program. By 1965, 40 Tribes had received technical assistance in the preparation of new economic development plans.

* Beginning in 1966, the ***Economic Development Administration*** began making contributions to tribal economic development in

the form of financing for public works projects; loans to businesses in target areas on or near reservations; and technical assistance and planning grants. There has been less funding in this program since the early 1980's.

* The ***Department of Labor*** has provided job training to Indians since 1963. Its original purpose was to help train Indians to fill the expanding job market on or near reservations. One aim of the Indian program is to encourage private employers to locate on or near reservations to take advantage of the available labor pool. The program has had mixed success in attracting Indian participants. Funds have been cut dramatically since the early 1980's.

* The ***Department of Education*** administers the Carl Perkins Act vocational training funds. A portion of these funds are set aside for Indian reservations to provide vocational training related to new business development. A number of Indian reservations have benefited from this program.

* Since the mid-1950's, the ***Small Business Administration*** has provided low-interest loans to Indian entrepreneurs. The funding peaked in the mid-1970's and was the lowest in over ten years in 1985.

* The ***Office of Economic Opportunity*** was created in 1964 and made funds available to tribes for programs of their own design. Some of those programs made interesting employment available to young, educated tribal members. This led to conflict within some tribes, where older, less educated members perceived it to be a threat to their political leadership. OEO has since become the Administration for Native Americans, a less powerful organization under the aegis of the Department of Health and Human Services.

* The ***Department of Housing and Urban Development*** is responsible for the unmet housing needs of people on the reservations. The administration of this program has been quite insensitive to the needs of the people it is intended to serve. At one point, tribal members were precluded from bidding on their own construction contracts due to an inability to fulfill bonding requirements. Siting preferences for the housing also have been frequently ignored.

* HUD also administered the more successful ***Urban Development Action Grant*** program. Terminated in 1989, this program provided grants to economically distressed communities to make low-interest loans to businesses and private developers to encourage them to create jobs through private investment. The program was beginning to be used to increasing advantage by reservations prior to its termination.

III. INDIAN ECONOMIC DEVELOPMENT

This Section

Indians living on reservations make up an increasing percentage of all Indians in the United States. They have not fared as well economically as those living off reservations. Poverty and unemployment rates have been much higher among Indians on reservations than among Indians who live elsewhere. These rates are considerably higher among Indians living off reservations than among the population of the United States as a whole. (Nelson et al, 1986.)

This section looks at inter-related factors affecting Indian economic development; characteristics of reservation businesses; tribal business failures and successes; barriers to and ingredients required for successful economic development; and federal legislation targeted to reservations.

Inter-related Factors

There are several important reasons why economic development has been slow to come to the reservations. Indian economic development is a function of an array of interrelated factors:

* A key inhibitor to economic development on reservations is the ***geographic isolation*** of many of these lands. Many are located on poor quality land and in harsh climates. Much of this geographic disadvantage is the result of federal policies which have relegated Indian tribes to economically nonviable land. (Cowden, Gross.) As Robert Nelson's Task Force on Indian Economic Development noted, to some degree the reservation economy is *an 'unnatural' economic occurrence ... More people are located on the reservation than economic considerations would normally warrant ...* (Nelson et al.)

* Many tribes have ***values*** which do not relate to nor appear to support the pursuit of private profit and individual entrepreneurship. Some individual Indians note that tribal traditions are based on a sense of community and mutual support, rather than on the competitiveness and individuality on which many businesses depend. Thus, the conflict that frequently arises on Indian reservations when attempts are made to bring in business is one of basic values. These values are as much cultural, religious and political as they are economic. On the reservation, there is a strong connection between economic reality, on one hand, and the socio-political and cultural realities, on the other. (Nelson et al.)

* ***Education and skill levels*** are another factor which affect

economic development on the reservations. Many people in the labor force frequently are not well educated and have not developed the job skills and work ethic expected by businesses. Often there also is a lack of management expertise. Because there has been a lack of business opportunities, people have not had any reason to learn these skills.

* Reservations often lack the necessary stable ***political and judicial framework*** on which businesses depend in order to succeed. A lack of consistent tribal regulations and policies toward business, creates a difficult environment in which to invest and to operate a business. Obtaining private investment capital is difficult. Thus, in lieu of privately generated jobs, there has been continued dependence on the Federal Government in the form of transfer payments or grants. (Nelson et al.; Cohen, 1989.)

* Because of ***sovereign immunity*** granted to Indian tribes under federal law, they cannot be sued for breach of contract. For this reason, unless a tribe has voluntarily forfeited this immunity, private businesses are often reluctant to locate operations on reservations. Under the Maine Indian Claims Settlement Act, the Passamaquoddy Tribe and the Penobscot Nation have forfeited such immunity from legal suit. They can sue and be sued for breach of contract in the same way as a municipality. In part, for this reason, the they have had success in attracting private business to their reservations.

Characteristics of Reservation Businesses

On many reservations tribal government focuses almost exclusively on getting federal grants, rather than on encouraging private entrepreneurship. The majority of businesses on reservations are either tribally owned, established with federal or tribal money, or they are natural resource extraction businesses which are location-specific.

On some reservations, there are joint venture and sole supplier businesses. Many of these have been established to take advantage of preferential contracting with the government or to satisfy the minority contracting requirements businesses need to meet to do work for the Federal government.

Many reservations do not have small businesses offering basic services, such as grocery stores, repair shops, restaurants, or gas stations. As a result, reservation consumer dollars are passed on to the non-Indian sector of the local economy rather than being circulated within the economy of the reservation. (Nelson et al.; Cohen.)

Tribal Business Failures

Reservation businesses have a failure rate that is higher than that for businesses off the reservation. Tribal business

development efforts have foundered for a number of reasons:

* Often there is a ***lack of personal accountability*** for the money used to capitalize the start-up. Frequently, capitalization is the result of a federal program. *Past federal assistance for economic development has often been money coming from outside ... 'free money'... which has not reflected a deep commitment by Indians to the successful use of this money.* (Nelson et al., p. 161.)

* Businesses often are externally initiated and ***lack cultural relevance*** to Native People. *The lack of local control, coupled with the feelings that the project is not appropriate to local needs, often leads to a 'no-win mentality'. Whatever is done will be wrong, so why try.* Economic development is frequently mired in political disputes around this issue, with some tribal members favoring the maintenance of tribal tradition and others favoring making the necessary changes to adapt to modern economics and technical demands. (Nelson et al, p. 161.)

* Often there is a ***lack of sound business perspective and practices.*** Many tribal members are driven more by cultural expectations than by sound business practices. There is frequently little political support for reinvesting company earnings, and sharing the "profits" from tribal enterprises is often considered good politics. Some other problems Indians have had in making their businesses succeed include *underpricing or having no marketing plan ... or overstaffing to increase employment, a constant temptation on job-poor reservations.* Creating jobs is frequently an important goal on Indian reservations where there are few job opportunities. *[F]avoring friends and relatives is often required, not frowned upon.* (Cohen, p. 36.)

Overcoming Barriers to Economic Development

If Indian tribes determine that their economic development efforts should parallel those valued and practiced by the larger society, then they must develop strategies to overcome barriers that are unique to the reservations. Strategies have been tried, with varying degrees of success, to overcome reservation disadvantages, such as geographic isolation, limited access to markets, underdeveloped infrastructure, poor education and training, and a different sense of work ethic:

* Among these strategies are ***government incentives***, such as tax breaks and regulatory relief. Experience shows that some combination of incentives may be necessary for success in attracting business. It has been shown that tax incentives alone, at least at the state level, are not a factor in the location decisions of businesses. (Nelson et al.)

* Other strategies include ***venture capital investment, prefer-***

ential contracting, skills training assistance, and improvements in the educational system. It also has been suggested that non-Indian management be permitted with some preferential contract arrangements, in order to assure that Indian managers are trained in management skills. (Nelson et al.)

* Some have suggested that the most effective way to encourage business development on reservations is to encourage large numbers of ***small enterprises, owned and initiated by Indian entrepreneurs.*** With the right support system, including management assistance, these projects may take root and expand slowly and substantively. *The current broad trend of expert opinion all around the world is to move away from formal planning of economic development and to rely more heavily on entrepreneurial efforts and spontaneous forces operating at a smaller scale.* (Nelson et al., p. 160.)

* It has been suggested that the survival of each small business be based on ***market forces***, rather than on subsidies from a tribe or the Federal Government. Many feel that this ultimately will build a stronger, more entrenched economy. The *law of unintended consequences* seems to hold sway when government bureaucracies try to maneuver in the delicately balanced reservation environment. (Nelson et al.)

Two Creative Strategies

The ***Seventh Generation Fund*** is an Indian-run appropriate technology foundation based in Forestville, California. It advocates slow, well-integrated development that is environmentally and culturally sensitive, rather than fast, flashy development that may be difficult to sustain over time. (Cohen.)

The ***Lakota Fund***, financed in part by grants from the Ford Foundation and from the Northwest Area Foundation, has been tailored specifically to the needs of the Pine Ridge Reservation in South Dakota. From one of its loan funds, it provides small amounts of capital to "micro" businesses on the reservation. It bases these loans on peer assessment and support, rather than on collateral, and it provides both personal and business counseling. In addition, it administers a small business loan fund for more formal lending to "traditional" small businesses.

Six Case Studies of Success

In March 1989, under the direction of Steven Stallings and Michael Allison, the National Center for American Indian Enterprise Development published *Joint Ventures: Creating Profits and Jobs*, a study of ventures between Indian tribes and private industry. The study examined six successful reservation-based businesses, five located on five Indian reservations, and the sixth, an Alaska Native Corporation venture, located in Anchorage, Alaska. The study noted that a development strategy must incorporate tribal goals and be based on an in-depth analysis of

the strengths and weaknesses of the tribe, including a labor force skills report.

The study pointed out that the six enterprises and the tribes that operated them had many characteristics in common:

* They all engaged in ***solid business planning*** and recognized the need for tribal businesses to be aware of private industry requirements for quality products and on-time delivery.

* They all recognized the need for a well-defined ***tribal development strategy.***

* They shared several ***tribal government characteristics***, such as supportive tribal leadership; the leadership of one talented, persevering individual; willingness to risk their own resources; use of public financing; and a policy of profits first and jobs second.

* The enterprises all made use of ***minority preferential contracting*** for manufacturing and construction businesses.

* All of the cases involved tribes ***actively seeking business opportunities***, rather than reacting to proposals from outside prospective venture partners.

The study observed that characteristics that are considered weaknesses in the struggle to attract economic development to reservations can also be seen as strengths. *For instance, geographic isolation and low labor-force skill levels can lead to a highly-trainable and loyal work force ... committed to surviving and prospering on their tribal lands.* (Stallings, Allison, p. 4.)

The study concluded that there are a number of essential ingredients in developing a successful tribal business development strategy:

* They must ***keep informed*** of upcoming local and regional economic opportunities and be responsive to market and business conditions.

* Tribes must set up a ***business team***, with each partner assuming risks, so that they stand together in times of trouble. They must first define the tribal goals and then look for a venture partner with whom they fit. They must actively analyze potential business partners, obtaining third-party information, where possible.

* They must have their own ***financial resources*** to invest and with which to leverage other funds. They must risk some of the tribe's own resources, as well as take advantage of public financing.

* The tribes must maintain a ***continuity of support*** for the

enterprise, regardless of a changing political climate.

* They must put ***experienced, qualified people*** on the board of directors. Members should vote independently, rather than as a block, with the best interests of the whole always in mind.

* There must be a policy of ***profits first and jobs second.***

* The tribes must clearly ***define work expectations***, being sensitive to tribal customs while being explicit about the needs and expectations of the business, in order to be viable.

* The tribes must assure that there are enough ***tribal workers*** who welcome the business and are committed to helping it succeed. They must train workers prior to the business taking them on the payroll, and must develop experienced and capable Indian managers to assure the continuity of the operation.

Federal Legislation

In 1987, federal legislation was proposed to encourage the development of businesses on reservations. Senator McCain (R-Arizona) proposed tax and regulatory relief, tribal government support, and targeted development funding. However, it never passed. In June 1989, he introduced S. 1203. This federal tax incentive legislation, targeted to Indian reservations, does not include a provision for enterprise zone designation of Indian reservations.

Senator Daniel Inouye (D-Hawaii) introduced S. 143 in January 1989, establishing the Indian Development Finance Corporation. This corporation would make or underwrite loans to Indian businesses. Stock would be held only by Indian tribes and the Federal Government.

IV. ENTERPRISE ZONES

This Section

Most reservations that need economic development are located in isolated rural areas and have no recent history of successful economies. However, because of the need for economic development and because of the numerous obstacles to such development, enterprise zones have been suggested as a means of enticing businesses to reservations.

This section looks at the definition and goals of enterprise zones; describes federal, state and local enterprise zone efforts; reviews issues relating to site selection; describes characteristics of zone businesses, as well as some common

threads shared by successful zone businesses; summarizes some negative views about enterprise zones and alternatives to enterprise zones; and considers the psychological impact of zone designation. This section also examines implications of applying the enterprise zone concept to reservations.

Definition; Goals

An enterprise zone is a specific geographic area which is designated to receive special treatment by local, State, and/or Federal Governments in order to attract business investment that might otherwise not occur. The special treatment usually involves some type of tax, regulatory, and/or paperwork relief. (Hornbeck, 1989, p.1.)

The primary goals of enterprise zones are economic development and job creation. Additional goals, include neighborhood revitalization, community development, and the improvement of the health, safety, and general welfare of zone residents. (Erickson, Friedman, 1989.)

Enterprise zones should be set up in ways that make sense economically, linking neighborhoods, transportation systems, vacant land and buildings, and a skilled workforce, in addition to some creative local initiatives designed to make a specific area attractive to business. (Murphy, 1986.)

Federal Enterprise Zones

In the early 1980's enterprise zones were envisioned as a way of revitalizing deteriorating inner cities. They were targeted to areas that had once had significant economic activity, but which had suffered severe economic decline, due to layoffs resulting from the closing of a manufacturing facility or other major places of employment. It was assumed that tax and regulatory relief would provide the impetus to businesses to locate and create jobs in these areas. (Ericson, Friedman; Guskind, 1989.)

It was expected that federal tax and regulatory relief would provide the major incentives. State and local areas were expected to add incentives of their own. (Erickson, Friedman; Guskind.) The lost tax revenue, it was argued, would be offset by decreased transfer payments, such as welfare and unemployment compensation. (Hornbeck.)

In 1987, Congress passed a law authorizing the Department of Housing and Urban Development (HUD) to establish 100 enterprise zones across the country, a third of which must be designated in rural areas. As of April 1990, HUD had plans to designate the first six of these 100 zones. The law provides for no direct financial incentives. Designation merely means improved chances for obtaining federal grants, such as UDAG, CDBG and EDA. (Business Facilities, 1988; Hornbeck.)

For designation, the law requires state or local commitment through four of the following types of incentives: state or local tax or fee reductions; increased public services; decreased red tape; community support for job training and provision of jobs; a stated preference for using minority contractors; and making land available at below market prices. (Business Facilities; Hornbeck.)

State and Inner City Programs

Most state programs offer a mixture of incentives to encourage development within enterprise zones. These may include some *combination of local property tax abatement, tax credits for hiring new employees, sales tax breaks, deductions for capital improvements, low-interest loans, and outright grants to businesses. Often there are job training funds and, in many cases, fresh public spending for infrastructure and government-subsidized marketing for the zone.* (Guskind, p. 1359.)

Although there have been some successes among state enterprise zones, it is difficult to attribute cause and effect to success. If job creation is used as a measure, then some state enterprise zones have indeed been successful, in that they have achieved significant job gains over the national rate in comparable time periods. (Erickson, Friedman; Hornbeck.)

Most of the work with enterprise zones has been in inner cities. The most successful zones have been those located in areas with existing or prior economic development. (Battle, Underhill, 1986.)

Site Selection

In most cases, the areas chosen for zone status [are] not the worst areas in a community either objectively or in the perceptions of local officials or business people." (Gilliam, Wye, Jones, 1986, p. viii.) *No state incentives are sufficient to attract investment into an area that is considered unsafe; or that has limited access, poor infrastructure, and few or no amenities.* (Battle, Underhill, p. 13.)

The following factors related to site selection appear to be important to the success of an enterprise zone:

* Experience has shown that ***development potential*** is important in the designation of enterprise zones. *Studies of programs in both Connecticut and Michigan suggest that 'development potential' was an important indicator of a zone's potential success. Development potential would be increased by an appropriate employment base, available sites, adequate infrastructure, some locational advantages, and a removal of local barriers to investment.* (Erickson, Friedman, p. 21.)

* Strong ***community support*** and confidence in the local adminis-

trators may be an important component in business investment decisions. On the other hand, a lack of such support and confidence, coupled with *high local taxes and crime rates, are said to deter investment*. (Erickson, Friedman, p. 21.)

* The success of enterprise zones may be precluded when ***zone designation criteria*** are overly restrictive and target only severely distressed areas.

Characteristics of Zone Businesses

Various studies reveal the characteristics of businesses locating in enterprise zones:

* ***Manufacturing firms***, rather than low-paying service and warehousing operations, account for 73% of the firms locating in the zones. (Erickson, Friedman.)

* Most of the new firms are ***small firms***, with 63% employing fewer than 50 people and 90% employing fewer than 100 people. (Gilliam, Wye, Jones.)

* Few of the ***businesses that move into the zones*** come from the areas immediately outside the zones; of those that do, most do so for reasons other than zone designation. (Gilliam, Wye, Jones.)

* ***New firms and expansions*** account for 80% of the enterprise zone establishments making investments, with only 9% being relocations. (Erickson, Friedman.)

Successful Enterprise Zones

Successful enterprise zones share many common threads: (Erickson, Friedman; Battle, Underhill; Gilliam, Wye, Jones.)

* The ***conditions*** for economic development are already in place, e.g., labor force, transportation, utilities. These zones have not suffered from extended periods (decades) of severe economic distress. Rather, they are declining or struggling areas where major employers have recently laid off a large number of workers.

* Zone designation has been important as a ***catalyst*** and has served as a stabilizing influence.

* There is a broad set of ***local incentives***, including property tax abatement and inventory and sales tax exemptions, without overly restrictive qualification criteria and ***strong local involvement***, particularly in zone marketing efforts. Often Community Development Block Grant funds have been targeted for infrastructure improvement.

Negative Views of Enterprise Zones

There are a number of researchers who discount the effectiveness of enterprise zones in the creation of jobs and attainment of other zone goals. Some argue that zone designation has not produced a net gain in the number of jobs available in an area. (Guskind.) In some cases, large losses due to the closing of manufacturing facilities have not been recouped through zone activities. (Gilliam, Wye, Jones.)

An urban planning professor at the University of Illinois studied enterprise zones in Bridgeport, Connecticut and Decatur, Illinois. He has stated that *across the board, whether you are talking about employment or community and neighborhood revitalization, the enterprise zones set up by the States are not producing the desired effects.* (Guskind, p. 1360.)

Two other researchers, who studied the enterprise zone in Evansville, Indiana, confirmed the economic growth that had occurred within the zone. However, they concluded that the reasons for the growth were not related to the enterprise zone. Rather, growth occurred because of *the characteristics of the land, the local enterprise zone association, the local director and factors beyond tax incentives. Financial incentives are useful but not critical ... Financial and regulatory incentives, by themselves, are very unlikely to lead to the success of enterprise zone programs.* (Guskind, p. 1360.)

A number of researchers have noted that time-frames studied have been short. In many cases, the seeds for economic development must be sown long before measurable results can be realistically expected.

A number of studies have shown that taxes are among the least important factors in business location decisions. Studies also have shown that some businesses do not even bother to apply for state tax breaks, because the savings are so small. Although there are differences of opinion about the costs of tax incentives offered by enterprise zones, it has been noted that States and local areas have felt the effects of lost tax revenue attributed to zone designations. Several studies have found that tax breaks have shifted the tax burden unfairly in cities. (Guskind; Erickson, Friedman.)

One fear is that enterprise zones spawn abuse, causing businesses to relocate from other sections of the same general area, causing no net gain in employment, while costing the Government considerable expense in lost tax revenue. Another fear is that large firms might place warehouses or other low-job branches in the zone as tax shelters. In one study, *36% of the tax breaks went to firms with almost no employees, firms that were using the zone as a tax shelter for warehouses where trucks simply unloaded and picked up materials.* (Guskind, p. 1360.)

Business location decisions are more often based on *labor costs, labor climate, market territory, transportation, and raw materials*, than they are on tax incentives. (Erickson, Friedman, p. 10.)

Alternative Incentives

A number of people feel that offering venture capital or access to Industrial Revenue Bonds as part of the incentive package may be a more effective tool than offering tax abatements in encouraging businesses to locate in the zones. (Gilliam, Wye, Jones; Battle, Underhill; Erickson, Friedman.)

In addition, offering job training, management assistance programs, and infrastructure development are considered to be important incentives. (Erickson, Friedman.)

Psychological Impacts of Zones

Some studies have shown that firms which located in zones were not influenced in their location decisions by the zone status in and of itself. However, firms already doing business in the zones were more likely to expand their operations and to make further investments in their businesses after the zone status went into effect.

This may be explained, in part, by the psychological impact of zone status, with the accompanying sense of commitment to the area by the local community and the area businesses. This aspect of the designation has been considered more important, in general, than the particular package of incentives. In fact, many zone business people have not even been aware of all the specific incentives included in their zone programs.

Thus, zone designation has been described as a catalyst, forging new relationships within the business community, rather than as an enticement to new business location through particular packages of financial incentives. (Gilliam, Wye, Jones.)

Tribal Enterprise Zones

It has been argued that enterprise zones will overcome the barriers to economic development on reservations in much the same way some have expected them to achieve economic revitalization in other distressed areas of the country. As noted previously, however, the state enterprise zones that have achieved some success have been those in urban areas that have known previous economic vitality. Indian reservations, on the other hand, are most often located in geographically isolated areas where there is no recent history of economic well-being.

There has been concern about the relevance of enterprise zones to Indian country. To some, concerned about the implied accountability of zones to State Governments, tribal sovereignty

and tribal government issues have surfaced as areas of particular importance. In addition, there seems to be bias toward big industry over small, locally based business development in proposed legislation. Some feel that legislation has limited applicability to tribes, in that local taxes and regulations on the reservations are minimal or nonexistent. Some feel tribes are not prepared to compete with other areas in seeking out business development. (Cowden, Gross, 1988; Frazier, Roberts, et al, 1981.)

Proposed Incentives for Reservation Zones

It has been assumed that to encourage economic development on Indian reservations, packages of incentives must be offered reservation enterprise zones to overcome the disincentives to private business development in Indian country. Among the incentives proposed are:

* ***Federal capital gains tax exemptions*** for gains invested in an enterprise zone on a reservation;

* ***Reduction or elimination of federal corporate income tax*** for profits made on businesses operating on a reservation;

* ***Tax credits*** for providing new jobs to people living on targeted reservations;

* ***Relief from some BIA regulations*** to give tribes a freer hand in negotiating with private businesses;

* ***Relief from Davis-Bacon wage standards*** to encourage employment of reservation Indians, particularly on construction projects on reservations; and

* Conferring ***foreign nation trade status*** to reservations, permitting value-added contracts with foreign countries exempting them from U.S. tariffs. (For example, foreign automobile manufacturers may be exempt from quotas if the cars are assembled in such a Free Trade Zone.)

Other Incentives

In addition, as of 1987, Indian tribes may issue tax-exempt Industrial Development Bonds for use in developing manufacturing projects, as well as for normal governmental purposes. It has also been suggested that the various granting and funding agencies and programs in the Federal Government, such as CDBG, EDA, HUD, DOT, Commerce, HHS, Education, and Labor, target Indian reservations, among other needy populations for particular attention and help. (Cowden, Gross, 1988.)

V. SUMMARY AND CONCLUSIONS

History

Historically, the Federal Government's policy has been aimed primarily at controlling the Indians. Over the years, the Indians' way of life and their means of self-support have been stripped away by policy designed to move them aside, so that economic progress could be made by the new culture.

Indian Economic Development

Through some notable successes on reservations, it has been proven that economic development is possible. There are some essential pre-conditions to success, including tribal commitment and leadership, sound business practices, availability of investment capital, and the resources to support job training. Federal incentives, such as preferential contracting, infrastructure development, and job training funds can be helpful.

There also have been a number of economic development failures on the reservations. Externally initiated projects are frequently culturally irrelevant to Indian people. Other difficulties include the geographic isolation of the reservations, as well as the lack of education and job skills among the people.

Enterprise Zones

Although the enterprise zone concept has existed for a number of years, the Federal Government has not put significant programs in place to implement the concept. Some State Governments have responded by implementing their own versions of enterprise zones. Overall, these have met with mixed results. Most of the state zones that have been successful have been in urban areas with prior economic development.

Proponents of enterprise zones argue that they will be effective only when the government offers larger monetary incentives. Others, concerned about the tax burden and potential for abuse created by the zones, do not believe that they can be effective.

Conclusions

During the Twentieth Anniversary Reservation Economic Summit on Private Enterprise Development in Mesa Arizona (Spring, 1990), an important point was made. It was stated that economic development needs to start in very small ways, developing first a sense of personal responsibility and discipline, and then moving toward more formal business development. The people need to learn to walk again before they can run. The "problem" has been a long time coming, and it will take time and patience to address

it in ways that are meaningful and sustainable.

In many ways, Indian economic development strategies are turning back toward where John Collier's vision left off ... working toward a sustainable and culturally relevant reservation economy. This time, however, much of the initiative is coming from the Indian tribes themselves, rather than from the Federal Government.

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Memorandum

To: Honorable John McCain, From: David L. Brumbaugh, Analyst in Public Finance, Economics Division, Congressional Research Service, The Library of Congress, Subject: "Explanation and Analysis of S. 1203, the Indian Economic Development Act of 1989", August 18, 1989.